BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 94-278-W/S - ORDER NO. 95-1579

OCTOBER 23, 1995

IN RE:	Application of AAA Utilities, Inc. for Approval of an Increase in Water and Sewer Rates and Charges.	) ORDER) APPROVING) RATES AND) CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of the Application of AAA Utilities, Inc. (AAA or the Company) for approval of a new schedule of rates and charges for its customers in South Carolina. The Company's Application was filed pursuant to S.C. Code Ann. §58-5-240 (Supp. 1994), and 26 S.C. Code Regs. 103-821 (1976) of the Commission's Rules of Practice and Procedure.

By letter dated May 17, 1995, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceedings of the manner and time in which to file the appropriate pleadings to be included in the proceedings. The Company was also instructed to notify directly all customers affected by the proposed rates and charges. The Company filed an affidavit and letter of certification which indicated that the Company complied with the instructions of the Executive Director regarding issuing the Notice of Filing. A Petition to Intervene was filed on behalf of the Consumer Advocate of South Carolina (the Consumer Advocate).

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations.

A public hearing regarding the Company's Application was held in the Commission's hearing room at 111 Doctors Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1994), a panel of three (3) Commissioners was designated to hear and rule on this matter. The panel consisted of Commissioners Bulter, Bradley, and Saunders. Commissioner Butler presided over the proceeding. Arthur G. Fusco, Esquire represented AAA; Elliott F. Elam, Jr., Esquire represented the Consumer Advocate; and Florence P. Belser, Staff Counsel, represented the Commission Staff.

AAA presented the testimony of Ed Swearingen, owner of AAA, and Jay Swearingen, assistant operator and bookkeeper of the Company. The Commission Staff presented the testimony of Sharon G. Scott, Public Utilities Accountant, and Robert W. Burgess, Utilities Rate Analyst. In addition, 6 customers of AAA appeared and offered testimony as public witnesses.

AAA provides water service to 417 customers in 11 subdivisions and provides sewer service to 7 customers in one (1) subdivision. These subdivisions are located in Richland and Lexington Counties in South Carolina. Over the years, AAA has extended its service area into various subdivisions as it has acquired water systems in the various subdivisions. AAA's present rates are not uniform for its entire service area. After thorough consideration of the entire record in this case, including the testimony and all exhibits, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The Company is a water and sewer utility operating in Richland and Lexington Counties, South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 (Supp. 1994) et seq.

2. The Company provides water service to approximately 417 residential customers and sewer service to approximately 7 residential customers. The Company's present rates and charges were approved in various Orders as the Company extended its service area and acquired systems.

3. For water service for customers living in Fairlawn, Hilton Sound, Lakeside Forest #2 Murray Hills, and Mallard Bay Subdivisions, the Company presently charges a Basic Facilities Charge of $7.00 per month and a commodity charge of $1.75 per 1,000 gallons. These subdivisions have an approved tap fee of $250.00 and a reconnect fee of $75.00. For water service for customers living in Love Valley, Millpond, Huntington Park, Ironstone, and Southern Pines Subdivisions, the Company presently charges a Basic Facilities Charge of $6.00 per month, a commodity charge of $1.75 per 1,000 gallons, a tap fee of $500.00, and a cut on fee of $20.00. The Company charges a flat rate of $10.00 per month in the Landpoint Subdivision with an approved tap fee of $250.00. Hearing Exhibit No. 2, Exhibit A.

The Company currently charges its sewer customers a flat rate of $10.00 per month and has an approved $250.00 tap fee. Hearing Exhibit No. 2, Exhibit A.

4. The Company proposed an increase in rates and charges that would be placed into effect in a Two Step Phase-in. For Phase One of the Two Step Phase-in, the Company proposed that the Basic Facilities Charge for water be increased to $7.50 per month for all subdivisions except Landpoint and that the commodity charge for water be increased to $2.50 per 1,000 gallons. For water service in Landpoint, the Company proposed increasing the rate to a flat rate of $15.00 per month. For sewer customers, the Company proposed an increase to $15.00 per month for Phase One. The Company also requested uniform charges to apply to water and sewer service of a tap fee of $500.00 and a cut-on fee of $20.00. Application, schedules B and B-1.

For Phase Two of the Two Step Phase-in, to be effective for service rendered after November 1, 1996, the Company proposed that the Basic Facilities Charge for water be increased to $8.50 per month for all subdivisions except Landpoint and that the commodity charge for water be increased to $3.25 per 1,000. For water service in Landpoint, the Company proposed to increase the flat rate to $20.00 per month. For sewer customers, the Company proposed an increase to $20.00 per month. Application, schedules B and B-1.

5. The Company asserts that the requested rate increase is needed because of the expenses of the Company exceed the revenues and consequently the Company has been operating with a negative

operating margin. Application and Testimony of Ed Swearingen.

The Company experienced a loss of ($15,383) for the test year, after accounting and pro forma adjustments. The operating margin for the test year, after interest expense and accounting and pro forma adjustments, under current rates, was (23.59%). Hearing Exhibit No. 3, Accounting Exhibit A.

6. The Company proposes that the appropriate test year to consider its requested rate increase is the twelve (12) month period ending December 31, 1994. Based on the Company's proposed test year, the Staff utilized the same test period for its accounting and pro forma adjustments. Application, Schedule C; Hearing Exhibit No. 3, pp. 1-6.

7. Under the presently approved rates, Staff computed the Company's operating margin, after interest and after accounting and pro forma adjustments, to be (23.59%). Staff calculated that the Company's proposed increase in rates and charges would result in an operating margin of 6.38% after Phase One and 21.42% after Phase Two. Hearing Exhibit No. 3, Accounting Exhibit A.

8. Under the Company's presently approved rates, the Company's operating revenues for the test year, after accounting and pro forma adjustments, are $81,317. The Company seeks an increase in its rates and charges for water and sewer service which would result in operating revenues of $109,049 after Phase One and $136,185 after Phase Two. The Phase One increase would result in an increase of $27,732, or 34.10%, in revenues, and the Phase Two increase would produce an additional $27,136, or 24.88%, in revenues for a total proposed increase of $54,868, or 67.47%.

Hearing Exhibit No. 2, Exhibit B.

9. The appropriate operating expenses for the Company during the test year, after accounting and pro forma adjustments, are $96,700. Hearing Exhibit No. 3, Accounting Exhibit A.

10. The Company's net operating income for the test year, after accounting and pro forma adjustment, is calculated to be ($15,383), and the Company's net income for return for the test year after accounting and pro forma adjustments is calculated to be ($15,383).

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing service in its service area located in Richland and Lexington Counties, South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuit to S.C. Code Ann. §58-5-10 (Supp. 1994) et seq.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker V. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648

(1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

3. The Company chose the test year ending December 31, 1994. The Commission Staff used the same test year in calculating its adjustments. Based on the information available to the Commission, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 1994, is appropriate for the purposes of this rate request.

4. The Commission concludes that the Staff's adjustments to the Company's operating revenues are appropriate for the purposes of this Order. Counsel for the Company announced at the beginning of the hearing that with the exception of one expense adjustment, the Company was in agreement with Staff adjustments. Staff's adjustments were to adjust operating revenues for year-end customers at present rates, to remove Department of Health and Environmental Control (DHEC) pass-through fees from operating revenues, to remove tap fees from operating revenues, and to add cut-on fees and late charges to the operating revenues. The net result of Staff's adjustments was ($9,760). The Commission concludes that the adjustments are reasonable and adopts the Staff's adjustments to operating revenues. Therefore, the Commission concludes that the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are $81,317.

5. The Commission also concludes that the Staff's adjustments to the Company's operating expenses are appropriate for the purposes of this Order. At the beginning of the hearing, counsel

for the Company stated that the Company agreed with all of Staff's accounting adjustments with the exception of Staff's adjustment to repairs and maintenance. Staff disallowed the Company's adjustment for repair and maintenance expense to maintain DHEC requirements because Staff found no known and measurable changes in order to make such an adjustment. Witnesses for the Company testified that the Company has been directed by DHEC to drill monitoring wells at the spray field on the sewer system and to dig a well deeper in one subdivision. The Company presented estimates for the drilling of the monitoring wells and for performing work on two other wells. However, testimony also revealed that these estimates were just estimates and that no contract had been executed for that work nor had the work been started. The Commission concludes that this adjustment should not be allowed as the adjustment was not known and measurable during the test year.

The Company also proposed an adjustment to repair and maintenance expense to increase the president's salary and benefits. The Company proposed an adjustment of $12,600 during the first year (Phase 1) and an additional $6,000 during the second year (Phase 2). Staff allowed the $12,600 adjustment but did not allow the $6,000 for the second year. Staff stated that it did not allow the $6,000 adjustment because Staff compared the salary to companies of similar size as AAA and found the $12,600 adjustment to be reasonable. The Commission agrees that the Staff adjustment is reasonable. Testimony revealed that the adjustment allowed would increase the president's salary to $30,000 which the Commission finds reasonable for a company of this size. Therefore, the Commission adopts Staff's adjustment.

Staff also made two other adjustments to repair and maintenance expense to remove the cost of a pump at Murray Hills and to remove the costs associated with installing taps. Staff stated that these items should be capitalized rather than expensed. Upon questioning during the hearing, a witness for the Company agreed with the Staff adjustments that these items should be capitalized instead of expensed. The Commission therefore finds that the Staff treatment of the items is proper and hereby adopts Staff's accounting adjustments.

Based on the concession made by counsel for the Company at the beginning of the hearing and no other opposition to Staff's other adjustments, the Commission accepts all other Staff adjustments. Accordingly, the Commission concludes that the Company's appropriate operating expenses for the test year, after accounting and pro forma adjustments, are $96,700.

6. Based on the accounting and pro forma adjustments herein approved, the Company's appropriate total income (loss) for return for the test year is ($15,383). The calculation of total income (loss) for return is shown in Table A.

TABLE A
TOTAL INCOME FOR RETURN

Operating Revenues	$81,317
Operating Expenses	96,700
Net Operating Income (Loss)	($15,383)
Customer Growth	-0-
Total Income (Loss) for Return	($15,383)

7. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service

Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net profits. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

9. There is no statutory authority that prescribes the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking

purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments, under the presently approved schedules, the Company's operating expenses for the test year, after accounting and pro forma adjustments and customer growth, the Company's present operating margin is shown in Table B as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	$ 81,317
Operating Expenses	96,700
Net Operating Income (Loss)	$(15,383)
Customer Growth	-0-
Total Income (Loss) for Return	$(15,383)
Operating Margin (After Interest Expense)	(23.59%)

10. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company but also the proposed price for the water and sewer service, the quality of the water and sewer service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E. 2d 672 (1991)

11. The three fundamental criteria of a sound rate structure have been characterized as follows:

> ... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

12. Based on the consideration enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 4.44% operating margin, after both Phases of the increase are implemented. In order to have a reasonable opportunity to earn a 4.44% operating margin, the Company will need to produce $106,315, or an additional $24,998, in annual operating revenues. The Commission approves additional revenues

of $13,229 in Phase 1 and $11,769 in Phase 2. Table C illustrates a 4.44% operating margin:

TABLE C
OPERATING MARGIN

AFTER TWO PHASE RATE INCREASE:

Operating Revenues	$106,315
Operating Expenses	97,987
Net Operating Income (Loss)	$ 8,328
Customer Growth	187
Total Income (Loss) for Return	$ 8,515
Operating Margin (After Interest Expense)	4.44%

13. In fashioning rates to give the Company the required amount of operating revenues so that it will have the opportunity to achieve a 4.44% operating margin, the Commission has carefully considered the concerns on the Company's customers with the needs of the Company. The Commission encourages the Company to continue to improve the quality of service it provides its customers. The rates designed herein consider the quality of service provided by the Company to its customers and the need for the continuance of the provision of adequate service, as well as the impact of the increase on those customers receiving service.

14. While the Commission concludes that an increase in rates is necessary, the Commission believes and concludes that the amount of increase proposed by the Company is unjust and unreasonable. The Commission also concludes that a Two Step Phase-in, as proposed by the Company, is appropriate and beneficial to the customers in implementing this rate increase. The Two Step Phase-in is an attempt to reduce possible rate shock to the customers of the Company.

15. Based on the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable. The rates and charges approved are designed in such a manner as to produce and distribute the necessary revenues to provide the Company with the opportunity to earn the approved operating margin.

16. Based on the testimony from the customers, the Commission encourages the Company to meter the Landpoint Subdivision. The Commission also encourages the Company to be more responsive to customer complaints.

IT IS THEREFORE ORDERED THAT:

1. The rates and charges attached hereto in Appendix A are approved for service rendered on or after November 1, 1995. The rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 1994).

2. Should the approved schedule not be placed into effect before the expiration of three (3) months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.

3. The Company shall maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class C utilities, as adopted by this Commission.

4. If the Company installs meters in the Landpoint Subdivision, the Company shall notify Staff and comply with the following instructions before charging the metered rates approved

herein. After notification from the Company that meters have been installed in Landpoint, Staff shall then verify that meters have been installed in the Landpoint Subdivision. After the Staff has verified that the meters have been installed, the Company shall notice the customers of the meters and allow the customers a full billing period before implementing the metered rate for service.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Rudolph Mitchell
Chairman

ATTEST:

Gary E Walsh
Deputy Executive Director

(SEAL)

APPENDIX A

AAA UTILITIES, INC.
1091 REYNORD CIRCLE
WEST COLUMBIA, SC 29172

FILED PURSUANT TO DOCKET NO. 94-278-W/S ORDER NO. 95-1579

EFFECTIVE DATE: OCTOBER 23, 1995

SCHEDULE OF RATES AND CHARGES

PHASE ONE
(To become effective November 1, 1995)

WATER

Base	–	$7.20 per month
Commodity	–	$2.05 per 1,000 gallons

LANDPOINT

Flat Rate (until meters are installed)	–	$13.00 per month

TAP FEE (non-recurring charge)	–	$500.00 per unit
CUT-ON FEE (non-recurring charge)	–	$ 20.00 per unit per event
RECONNECT FEE	–	$ 75.00

(APPROVED FOR FAIRLAWN, HILTON SOUND, LAKESIDE FOREST #2, MURRAY HILLS, AND MALLARD BAY SUBDIVISIONS BY ORDER NO. 86-651, DATED JUNE 24, 1986, IN DOCKET NO. 85-571-W/S.

SEWER

MALLARD BAY

Flat Rate	–	$13.00 per month
TAP FEE (non-recurring charge)	–	$500.00 per unit
CUT-ON FEE (non-recurring charge)	–	$ 20.00 per unit per event

BILLING CYCLE

Recurring charges will be billed bimonthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided. Tap Fee is due at the time connection to the water system is required.

LATE PAYMENT CHARGES

Any balance unpaid with twenty-five (25) days of the billing date will be assessed a late payment charge of one and one-half per cent (1 1/2%) for each month, or any part of a month, such balance remains outstanding.

PHASE TWO
(To become effective November 1, 1996)

Base	-	$7.50 per month
Commodity	-	$2.40 per 1,000 gallons

LANDPOINT

Flat Rate (until meters are installed)	-	$15.00 per month

TAP FEE (non-recurring charge)	-	$500.00 per unit
CUT-ON FEE (non-recurring charge)	-	$ 20.00 per unit per event
RECONNECT FEE	-	$ 75.00

(APPROVED FOR FAIRLAWN, HILTON SOUND, LAKESIDE FOREST #2, MURRAY HILLS, AND MALLARD BAY SUBDIVISIONS BY ORDER NO. 86-651, DATED JUNE 24, 1986, IN DOCKET NO. 85-571-W/S.

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Recurring charges will be billed bimonthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided. Tap Fee is due at the time connection to the water system is required.

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Any balance unpaid with twenty-five (25) days of the billing date will be assessed a late payment charge of one and one-half per cent (1 1/2%) for each month, or any part of a month, such balance remains outstanding.